



Defense Partnering & Alliances



Adopting Strategic Alliances and Commercial Partnerships to Support New Defense Logistics Initiatives



Presented By:
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Defense Logistics Agency

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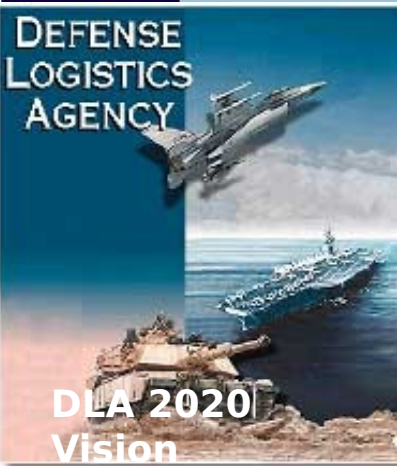


Agenda



- ✓ **DLA: Business Vision**
- ✓ **Strategic Material Sourcing**
- ✓ **Strategic Alliances**
- ✓ **Prime Vendor (PV) / Virtual PV**
- ✓ **Challenge Ahead**

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JV2020

- ▢ People
- ▢ First Rate Equipment
- ▢ Readiness

DoD Strategic Plan

- ▢ Integrated Supply Chain
- ▢ Streamlined Business Practices
- ▢ Commercial Practices/ Core Functions

DLA 2020

- ▢ Integrated Logistics Combat Solutions
- ▢ Worldwide Response
- ▢ Logistics Information Management

DLA Support to the Warfighter



Sec. 395 Report to Congress

- ▢ Warfighter's Logistics Chain Integrator
 - ▢ Spare Parts
 - ▢ Subsistence
 - ▢ Clothing & Tents
 - ▢ Fuels
 - ▢ Construction and Maintenance Material
 - ▢ Medical

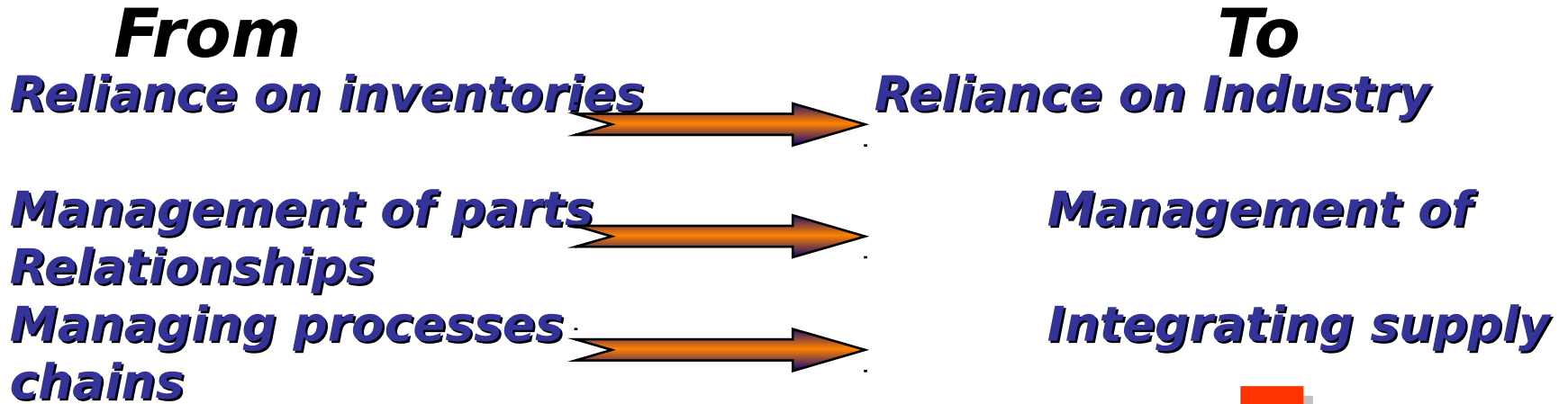
Ensuring America's Warfighters are never logistically unprepared in the 21st Century...through Better, Faster, Best Value Support



Business Vision



"A value added broker of suppliers for materials and services"



The "Shift to Best Business Practices"

- 1 Buy commercial ones where they exist
- 2 Build virtual chains where the pieces exist
- 3 Integrate organic chain when it must be used

Commercial Sector Experts

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How Is This Different ?



Current Business

- ✓ **Functional Requirements**
- ✓ **Manager of “Supplies”**
- ✓ **Mobilize “via Inventory”**
- ✓ **Instantaneous Buys**
- ✓ **Stove-piped Systems**
- ✓ **“Build” Software**

Re-Engineered

- ✓ **Outcome Oriented**
- ✓ **Manager of “Suppliers”**
- ✓ **Mobilize “via Industry”**
- ✓ **Long-term Partnerships**
- ✓ **Open, yet Secure Architecture**
- ✓ **“Buy/Assemble” Software**

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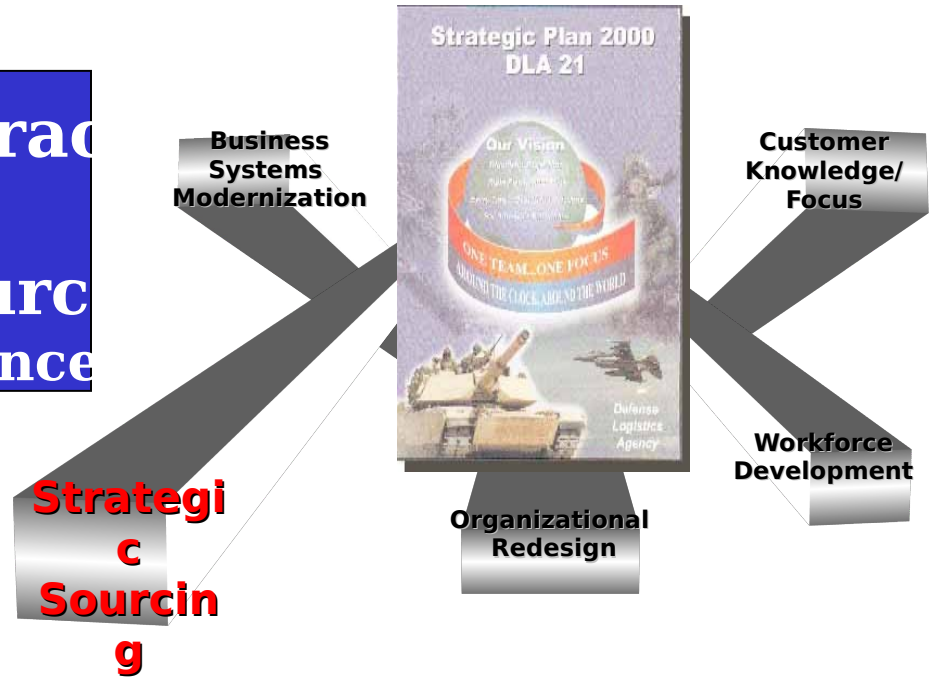


Strategic Framework

**Shift to Commercial Practice
(Hardware Items)**

- Strategic Materiel Sourcing
- Strategic Supplier Alliance

↑
Today's Focus



Developing a corporate strategy to address sourcing strategies across ICPs that encompass customer, supplier, and product segmentation faces

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Targets of Opportunity

Strategic Materiel Sourcing

Strategic Supplier Alliance

Items representing largest business drivers

PBLs

Vendors representing largest business base

- Demand/spend
- Readiness factors
- BSM concept

- Large annual sales
- Multiple customer support requirements

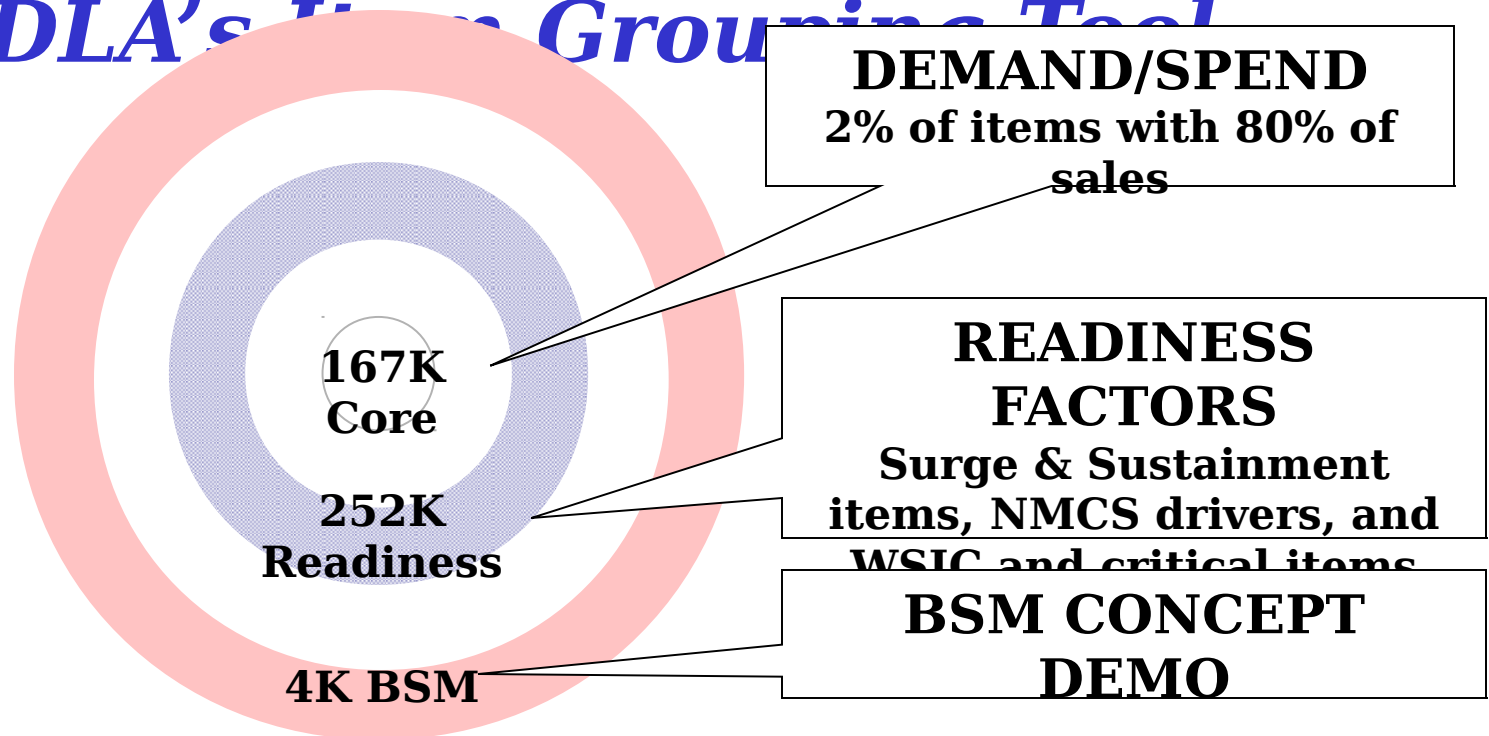
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-- Strategic partnering

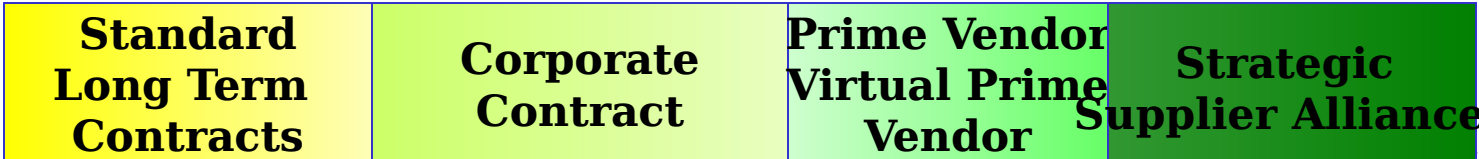


Strategic Materiel Sourcing

DLA's Item Grouping Tool



SMS Groups Items for Placement on Contract



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Strategic Materiel Sourcing



Best Business Practices

Technique

Situation/Application

Prime Vendor	➔	Existing commercial distribution system
Virtual Prime Vendor	➔	Existing 3PLs/integrators and connecting links
Long Term Contracts	➔	Commercial partnerships
Corporate Contracts	➔	Range of parts, varying usage, from a single vendor
Vendor Managed Inventory	➔	Part of distribution or total supply chain management solution
Direct Vendor Deliver	➔	Commercial inventory and delivery
On-Demand Manufacturing	➔	Low/no demand parts
E-Mail	➔	Web based customer access to military/commercial items using credit card
Reverse Auctioning	➔	Price Sensitive Commodity
Strategic Alliances	➔	Fully Integrated Partnerships
Performance Based Contracting	➔	Focus on End Result

DLA is Building Long-Term Relationships with Customers and Suppliers

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Strategic Supplier Alliance Goals



✓ Improve availability & reduce customer wait time

▶▶ Performance-based metrics

✓ Reduce inventory

□ DVD where appropriate

✓ Reduce total prices

□ Administrative costs

□ Process changes

□ Long term agreements

- DoD IG audit of initial Honeywell contract award
- Prices reduced \$23-\$40M 12 yrs
- \$8M inventory levels for initial 34 items will be reduced to almost nothing
- Shipment times have been reduced from historical average of 20-25 days to 5-7 days
- Negotiate each item once instead of many times over 12 years

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Contract Vehicles



Standard Long Term Contracts

A contract in excess of one year (including options) with electronic delivery orders. DLA direct and customer direct.

Corporate Contract

A long term contract that aggregates requirements of more than one ICP with a single supplier. DLA direct and customer direct.

Prime Vendor

Virtual Prime Vendor

A long term contract with a commercial distributor, OEM or third party logistics provider for integrated logistics support that may include forecasting, inventory management, distribution, engineering support, technical services or other services to support customer needs. Normally includes performance metrics.

Strategic Supplier Alliances

A customer contract that aggregates requirements of all the ICP's for the supplier's entire line of sole-source items. Provides mutual benefits for both parties through collaborative planning, execution and streamlined acquisition processes. Includes performance metrics.

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Contract Benefits

Standard Long Term Contract	Corporate Contract	Prime Vendor Virtual Prime Vendor	Strategic Supplier Alliance
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Reduced administrative lead time (ALT) and costs

Reduced production lead time (PLT) and inventory

**Time and resources required
to put the contract in place**

Reduced DLA infrastructure costs

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Strategic Supplier Alliance

Process

Initial SSA contract award

- Institutes standardized framework
 - Common terms and conditions
 - Establishes pricing methodology
 - Deviations and waivers in place
- Sets the precedent for add-ons
 - Number of NSNs may be
 - Subsequent additions fast
 - Primarily a pricing exercise

Team effort including all stakeholders, Service customers, DCMA, DCAA, DoDIG, RIT support from the Change Mgt Center



Timeline



- SSA Process Steps**
- **Supplier engagement, pre-planning and concept review**
 - **Charter SSA & RIT (not mandatory)**
 - **Data analysis, item selection, demand mapping**
 - **Acquisition strategies**
 - **Contract terms and conditions**
 - **Pricing negotiations, initial contract award**
 - **Total**

Initial timeline	Revised timeline
1-2 mo	1 mo
1-2 mo	1 mo
3-4 mo	1 mo
3-4 mo	1 mo
5-6 mo	2-3 mo
5-6 mo	3-5 mo
18-24 mo	9-12 mo

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Strategic Supplier Alliance Awards

- Honeywell

- Initial SSA award: Jun 2000
 - 34 NSNs; \$2.2M Annual Demand Value (ADV)
- Currently:
 - 1100 NSNs under contract; 3000 more in

DDI Feb 2002 draft report on Honeywell SSA contract award

- BAE Systems

- Initial SSA award: Dec 2001
 - 20 NSN's; \$71K ADV

- Next phase:

- Customer prices will be reduced \$59M over the 12 yr contract for the first 594 items
- \$13.9M inventory levels for first 221 items already reduced by \$9.8M and will be reduced to almost nothing as inventory levels depleted for catalog items

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Honeywell SSA Model



Demand Environment

Catalog

Many Users
Contractor Manages
DVD with KTR
forecast

Replenishment

Primary user at 1
site
Scheduled deliveries



Build to Order

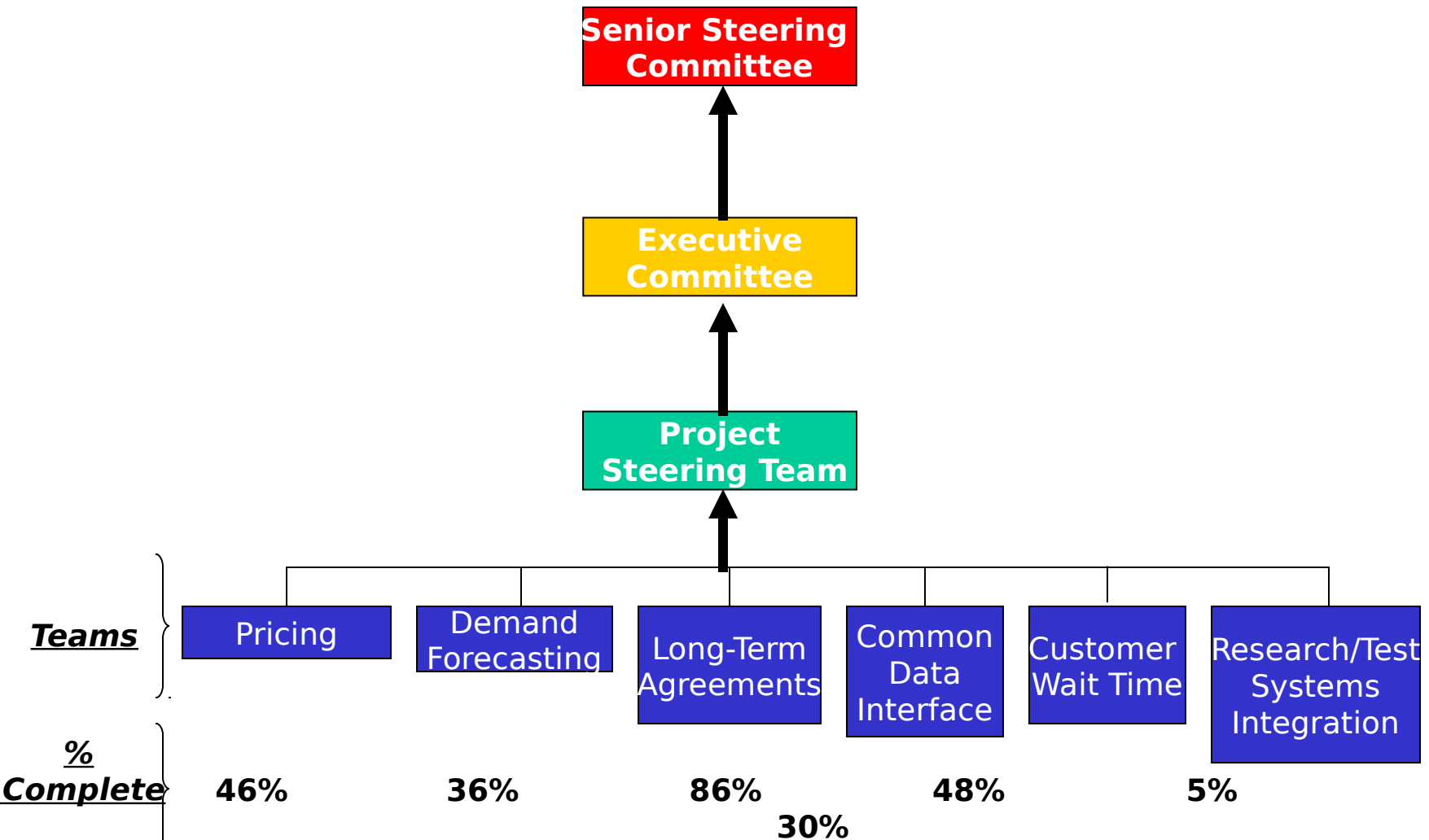
Low Demand Items Stock to DLA
Inventory

Model is slowly morphing
to a 2-environment
arrangement

Boundaries between environments are not rigid and items can move
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Boeing Pre-SSA *Management Structure*



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Measurement of Execution Plan

- **Leading indicators**

- ***SMS execution:*** SMS NSN's planned vs actual by quarter
- ***SSA execution:*** Initial contract award, planned vs actual

- **Lagging indicators**

- **Reduced inventory**
- **Reduced ALT & PLT**

Briefed:

Army: DASA(PROC); AMC

Air Force: SAF (AQC);

Navy: ASN(RDA)ABM;
NAVICP



SSA Challenges



- **Corporate commitment**
 - Partnership agreement
 - Resource intensive
- **Integrating with Mil Service initiatives**
 - Discrete NSN pricing
 - Funding for non-traditional contract structure
 - On-hand inventory reduction
 - Worldwide support (materiel/distribution responsibilities)
- **Long term contracts**
 - Small business goals
 - “Bundling” legislation
- **Commercial item pricing**
 - OSD vs DoDIG perspectives

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Next Steps

- **Refine business case analysis process**
- **Establish milestone decision process for pre and post-award**
- **Incorporate into DLA's Business Systems Modernization (BSM) effort**
- **Identify candidates for FY 04-07**
- **Ensure continued outreach to Services**

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Troop Support



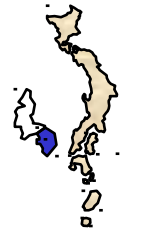
Prime Vendor - Example Program

- ✓ **Pharmaceutical**
- ✓ **Medical/Surgical**
- ✓ **Navy Fleet Pharmaceutical/Medical/Surgi**
- ✓ **Subsistence**
- ✓ **Uniforms**
- ✓ **Metals**
- ✓ **Food Service Equipment**
- ✓ **Wood Products**
- ✓ **Marine and Lifesaving Equipment**
- ✓ **Firefighting Equipment**
- ✓ **Maintenance, Repair & Operations (MRO)**
- ✓ **MRO Services**

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MRO Prime Vendor Program Status



Pacific Region



Alaska Region



Hawaiian Region



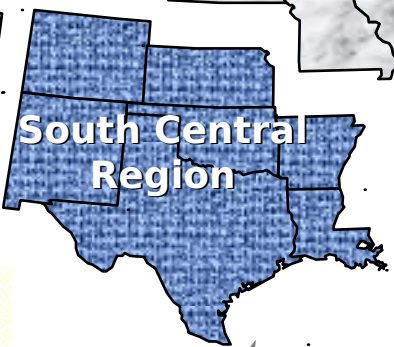
Northwest Region



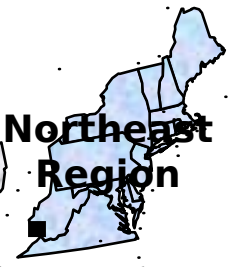
Southwest Region



North Central Region



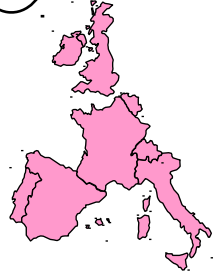
South Central Region



Northeast Region



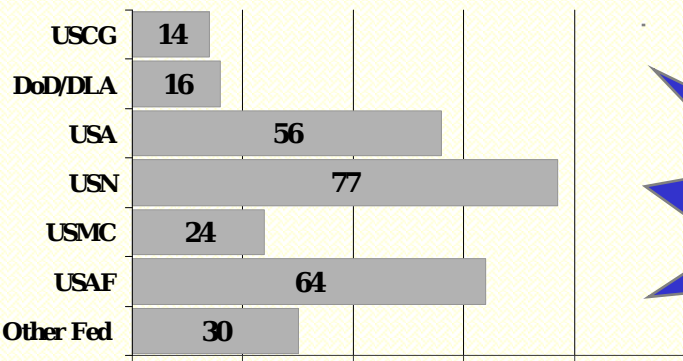
Southeast Region



Europe Region

Web Access

MRM #12 & DRID #45



Participating Customers, By Service

281 CUSTOMERS

- PROGRAM STATUS**
- All CONUS awarded as of 6/98
 - Japan/Okinawa awarded 3/99
 - Korea awarded 8/99
 - Germany - awarded 28 July 2000
 - Implementation Sites: 411th BSB Heidelberg; 221st BSB Wiesbaden
 - Remainder of Europe - to be solicited 2nd qtr CY02

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Weapon Systems Support

Prime Vendor/ Virtual Prime Vendor

- ✓ Industrial Prime Vendor (Benchstock)
- ✓ C-5
- ✓ C-130
- ✓ Fleet Automotive
- ✓ Automotive Overseas
- ✓ F-15



Strategic Alliances

- ✓ Honeywell
- ✓ Hamilton Sundstrand
- ✓ Boeing



Corporate Contract

Examples:

- ✓ AM General
- ✓ Oshkosh Truck
- ✓ Penn Detroit Diesel
- ✓ NAPA
- ✓ Freightliner
- ✓ Westside Tractor
- ✓ Komatsu
- ✓ Cummins Engine
- ✓ Eastman Kodak
- ✓ 3M
- ✓ Dayton Granger
- ✓ Aqua-Chem
- ✓ Boeing - Seattle

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C-130 (Hubs and Blades)

VPV

- ✓ **Approximately 1,500 NSNs**
- ✓ **Supports Warner-Robins ALC and NADEP Cherry Point**
- ✓ **Provides worldwide support including: Air Force, Navy, Coast Guard and FMS**
- ✓ **Flexible long term contract**
- ✓ **Includes 19 Air Force repairable items**



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C-5 Galaxy

VPV



- ✓ **Contract awarded to Lockheed Martin Greenville 12/29/00**
 - ▶ **Primary Customer is Warner-Robins ALC**
 - **Worldwide support included**
 - **Total estimated contract value \$1B+**
 - **11,408 NSNs included**

- ✓ **Contract design developed through:**
 - **Lessons learned from C-130 VPV**
 - **Customer input - Air Staff, AFMC, AMC, and C-5 SPO**

- ✓ **Flexible Long Term**
 - **3 base years with 2 two year and 1 three year option**
 - **10 year total potential contract period**

- ✓ **Electronic Commerce and Surge Provisions**



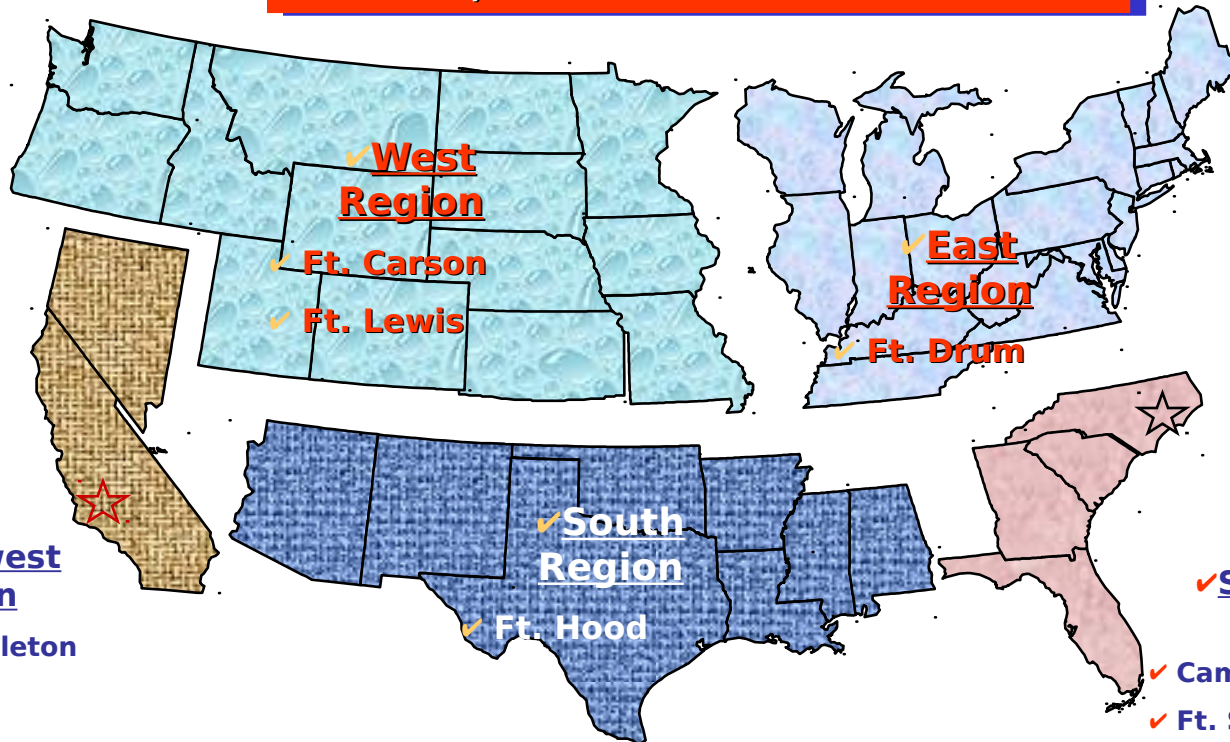
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Fleet Automotive Support Initiative



(FASI)
CONUS support including inventory management, distribution, parts acquisition, and forecasting for 21,000+ automotive items



East and West Regions Planned Early 2002

5 Regions - \$515M estimated value - with the ability to rollout individual sites within the regions

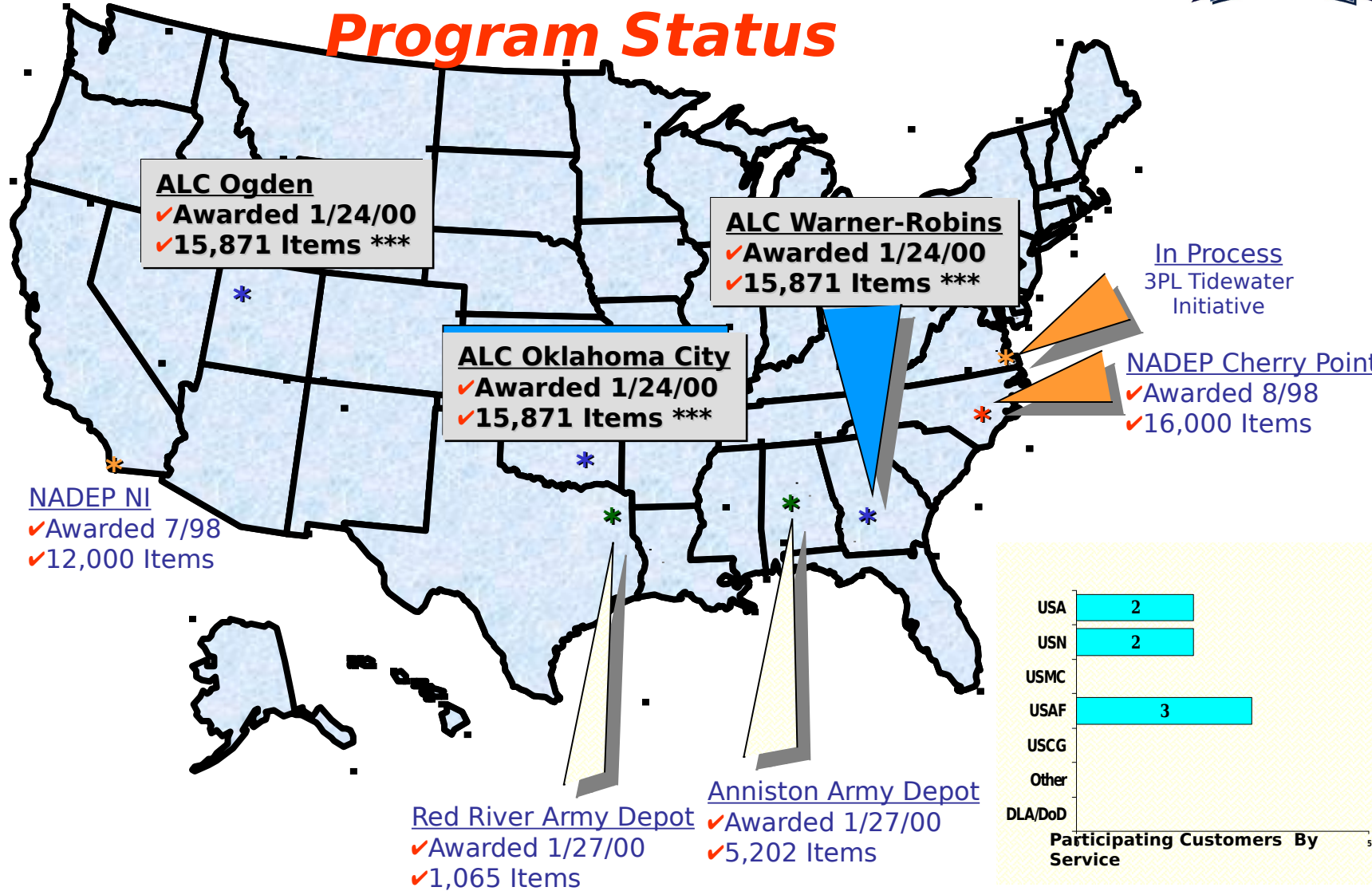
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Industrial Prime Vendor (IPV)



Program Status



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Challenges

- **Long term contracts**
 - **Small business goals**
 - **“Bundling” legislation**

- **Partnering efforts**
 - **Competition in Contracting Act**
 - **Sole-source authorization—Aviation Tires**
 - **Contract type and structure**
 - **Discrete NSN pricing vs. power by the hour**
 - **Funding for non-traditional contract structure**
 - **Weapon system support vs. worldwide support**
 - **Commercial item pricing**

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Challenges Ahead

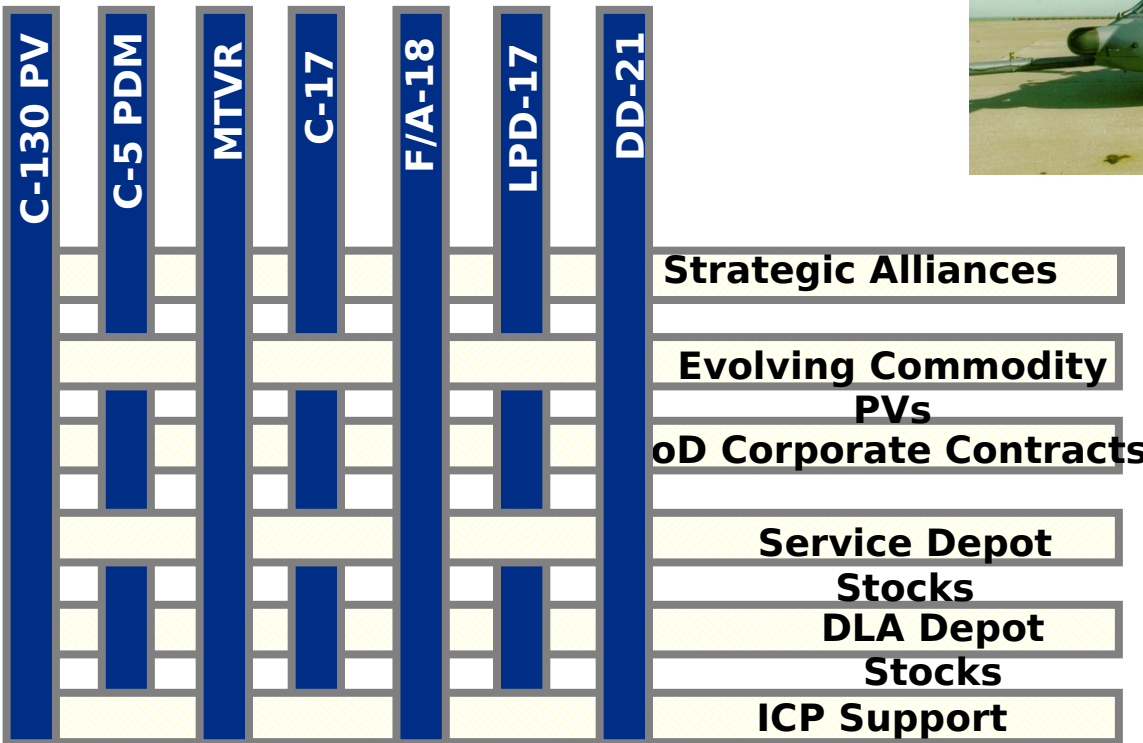
Supply Chain Integration



Vertical Support:
All Commodities for Specific Customers



REQUIREMENTS



CUSTOMERS

★ Integrated Support:
Prime Vendor Access to DLA and Service Supply Sources and Other Prime Vendor Contracts

Horizontal Support:
Specified Commodities for Many Customers

Support Tailored to Warfighter Needs

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Conclusion

Giving our Nation's Warfighters what they need...



Faster, reliable service



From Logistics Mass to Logistics Velocity



**Reduced inventories
Better quality**



Lower costs



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